

October 13, 2010

ITEM NO. C4

AUTHORIZATION TO ENTER INTO CONTRACTS WITH HUMANA (MEDICAL AND DENTAL), DAVIS VISION, LINCOLN FINANCIAL AND AMERIFLEX FOR THE CHA'S EMPLOYEE HEALTH BENEFIT PLANS

To the Honorable Board of Commissioners

RECOMMENDATIONS

It is recommended that the Board of Commissioners authorize the Chief Executive Officer or his designee to enter into contracts with the following insurance providers for the Chicago Housing Authority's ("CHA") Employee Health Benefit Plan covering eligible participants of the CHA and eligible participants of the CHA's affiliates for the benefit year of January 1, 2011 through December 31, 2011 and for the FY 2012 option benefit year (1) Humana HealthCare (medical) in an amount not-to-exceed \$5,304,951.00 for the base term and subject to funding availability, an amount not-to-exceed \$5,600,000.00 for the option year; (2) Humana, (dental) in an amount not-to-exceed \$238,576.44 for the base term and subject to funding availability, an amount not-to-exceed \$238,576.44 for the option year; (3) Davis Vision in an amount not-to-exceed \$40,010.93 for the base term and subject to funding availability, an amount not-to-exceed \$40,010.93 for the option year; and (4) Lincoln National Life [Life, Short-term disability (STD) and Long-term disability (LTD)] in an amount not-to-exceed \$287,270.71 for the base term and subject to funding availability, an amount not-to-exceed \$287,270.71 for the option year; and (5) Ameriflex for employee flexible spending accounts in an amount not-to-exceed \$11,825.00 for the base term, and subject to funding availability, an amount not-to-exceed \$11,825.00 for the option year for an aggregate amount not-to-exceed \$5,882,634.08, for FY2011 and subject to funding availability, an aggregate amount not-to-exceed \$6,177,683.08 for the FY2012 option year.

Funding
General Funding

CONTRACT INFORMATION

HUMANA HEALTHCARE
500 W Main St
Louisville KY 40202

Contract Type: Insurance Coverage Services
Contract Term: 01/01/211– 12/31/11 with one additional one-year option period
Contract Amount: \$5,304,951.00
Option Year 1: Not to exceed: \$5,600,000

M/W/DBE Participation:
Waiver: Yes
Section 3: N/A

HUMANA DENTAL
500 W Main St
Louisville KY 40202

Contract Type: Insurance Coverage Services
Contract Term: 01/01/11 – 12/31/11 with 2
additional one-year option period
Contract Amount: \$238,576.44
Option Year 1: \$238,576.44

Davis Vision
159 Express St.
Plainview, NY 11803

M/W/DBE Participation:
Waiver: Yes
Section 3: N/A

Contract Type: Insurance Coverage Services
Contract Term: 01/01/11 – 12/31/11 with 4
additional one-year option periods
Contract Amount: \$40,010.93
Option Year 1: \$40,010.93

LINCOLN NATIONAL LIFE
150 North Radnor-Chester Road
Radnor, PA 19087

Contract Type: Insurance Coverage Services
Contract Term: 01/01/11 – 12/31/11 with one
additional option-year period for Life and LTD
and two-year option period for STD
Contract Amount: \$287,270.71
Option Year 1: \$287,270.71

AMERIFLEX Flexible Spending
Accounts
302 Fellowship Road
Mount Laurel NJ 08054

Contract Type: Insurance Coverage Services
Contract Term: 01/01/11- 12/31/11 with one
additional one-year option period
Contract Amount: \$11,825.00
Option Year 1: \$11,825.00

M/W/DBE Participation:
Waiver: Yes
Section 3: N/A

Date Solicited: June 1, 2010
Due Date for Quotes: August 2, 2010
No. of Responses Received 16: 1 for Medical, 3 for Dental, 4 for Vision, 4 for Life and 4 for FSA

GENERAL BACKGROUND

The CHA's current contracts for employee healthcare plan benefits with HUMANA (medical and dental), Davis Vision, and Lincoln Financial (Life, STD and LTD) will terminate on December 31, 2010 and must be replaced effective January 1, 2011. The U.S. Department of Housing and Urban Development ("HUD") has previously authorized the CHA to utilize its insurance Broker of Record to solicit competitive insurance bids on behalf of the CHA.

In 2009, participants of the CHA's Healthcare received a 53% increase of current employee contributions. Currently participants of CHA's Healthcare pay an average of 20% of the total health care costs (e.g., premiums, deductibles, co-payments). Health insurance premiums have consistently grown faster than inflation in recent years. Between 2004 and 2009, the cumulative growth in health insurance premiums was 82%, compared with cumulative inflation of 17% and cumulative wage growth of 19%.

PROCUREMENT HISTORY

The CHA's insurance broker for Employee Health Plan Benefits, Mesirow Financial ("Mesirow"), directly solicited requests for insurance premium quotes from 36 top healthcare insurance providers in their respective fields for employee medical, dental, vision, Life, STD and LTD insurance, including the CHA's current healthcare benefit insurance providers. Letters requesting premium quotes, along with current data (April 2010 CHA census population) necessary for preparing insurance premium quotes, were delivered by Mesirow to the 36 healthcare insurance providers on June 1, 2010 requesting submittal of proposals by August 2, 2010. The estimated 2011 renewal "not-to-exceed amounts" stated above are estimated from eligible staff headcount of projected participant levels for 2011.

Mesirow received 1 proposed quote for medical, 3 for dental, 4 for vision and 4 for Life, LTD and STD benefits and 4 for flexible spending accounts. The recommended awarded vendor for medical insurance, Humana Healthcare, provided a proposal of 4.59% over the 2010 rates for 2011. The national trend for rate increases in employee medical insurance premiums, as reported by the AON Spring 2010 Health Care Trend Survey, is projected to exceed 10-16% for the year 2011. Humana Healthcare provides a comprehensive and extensive medical PPO and HMO hospital and physician network for CHA. Humana dental offered an estimated rate 3.87% over the current rates. Although the 2 alternate dental carriers offered a proposal less than CHA's 2010 rates, Humana dental nationally is in the top 3 largest dental networks, and they offer additional value in their dental PPO and HMO plans. Davis Vision's quote was extremely favorable to the CHA with a decrease of 2% in premiums and the overall employee satisfaction has been favorable over the years. Davis vision is partnered with the largest eyecare network provider, used by a large volume of current employees, Vision Works, and with a newly offered enhanced benefit for the 2011 plan year Davis Vision is the best choice for CHA. Compared to the other insurers that provided competitive quotes for dental and vision, Humana Healthcare, Humana Dental and the Davis Vision's plans offered a better overall value to the CHA and its eligible participants.

For Life, STD and LTD insurance, AUL-One America Life offered the most competitive rates with approximate savings of \$78,000 (32%) from Lincoln Financial 2010 rates. However, based on the condition of employees not actively at work and receiving benefits, AUL and the other carriers cannot guarantee coverage of those individuals as a new carrier.

The not-to-exceed amounts for each contract reflect the total premiums that include CHA's eligible participants and the eligible participants of CHA's Affiliates. The CHA's affiliates will reimburse the CHA 100% of the premiums (approximately \$500,000) to cover the above referenced Employee Health Benefit Plans for their eligible participants during the term of these contracts.

Based upon the above considerations and the recommendation of the CHA's management, it is in the best interest of the CHA to enter into contracts for the CHA's Employee Health Benefit Plans for the period of January 1, 2011 to December 31, 2011 with options to extend the contracts for one additional one-year term for the FY2012 option benefit year with the following providers: (1) Humana HealthCare (medical) in an amount not-to-exceed \$5,304,951.00 for the base term and subject to funding availability, an amount not-to-exceed \$5,600,000.00 for the option year; (2) Humana, (dental) in an amount not-to-exceed \$238,576.44 for the base term and subject to funding availability, an amount not-to-exceed \$238,576.44 for the option year; (3) Davis Vision in an amount not-to-exceed \$40,010.93 for the base term and subject to funding availability, an amount not-to-exceed \$40,010.93 for the option year; (4) Lincoln National Life [Life, Short-term disability (STD) and Long-term disability (LTD)] in an amount not-to-exceed \$287,270.71 for the base term and subject to funding availability, an amount not-to-exceed \$287,270.71 for the option year; and (5) Ameriflex for employee flexible spending accounts in an amount not-to-exceed \$11,825.00 for the base term, and subject to funding availability, an amount not-to-exceed \$11,825.00 for the option year. The aggregate amount of all insurance coverage is not-to-exceed \$5,882,634.08 for FY2011 and subject to funding availability, an aggregate amount not-to-exceed \$6,177,683.08 the FY2012 benefit year option term.

RESOLUTION NO. 2010-CHA-135

WHEREAS, The Board of Commissioners of the Chicago Housing Authority has reviewed the Board Memorandum dated October 13, 2010, entitled "AUTHORIZATION TO ENTER INTO CONTRACTS WITH HUMANA (MEDICAL AND DENTAL), DAVIS VISION, LINCOLN FINANCIAL AND AMERIFLEX FOR THE CHA'S EMPLOYEE HEALTH BENEFIT PLANS

THEREFORE, BE IT RESOLVED BY THE CHICAGO HOUSING AUTHORITY

THAT, that the Board of Commissioners authorizes the Chief Executive Officer or his designee to enter into contracts with the following insurance providers for the Chicago Housing Authority's ("CHA") Employee Health Benefit Plans covering eligible participants of the CHA and eligible participants of CHA's affiliates for the benefit year of January 1, 2011 through December 31, 2011 and for the FY2012 option benefit year: (1) Humana HealthCare (medical) in an amount not-to-exceed \$5,304,951.00 for the base term and subject to funding availability, an amount not-to-exceed \$5,600,000.00 for the option year; (2) Humana, (dental) in an amount not-to-exceed \$238,576.44 for the base term and subject to funding availability, an amount not-to-exceed \$238,576.44 for the option year; (3) Davis Vision in an amount not-to-exceed \$40,010.93 for the base term and subject to funding availability, an amount not-to-exceed \$40,010.93 for the option year; (4) Lincoln National Life [Life, Short-term disability (STD) and Long-term disability (LTD)] in an amount not-to-exceed \$287,270.71 for the base term and subject to funding availability, an amount not-to-exceed \$287,270.71 for the option year; and (5) Ameriflex for employee flexible spending accounts in an amount not-to-exceed \$11,825.00 for the base term and subject to funding availability, an amount not-to-exceed \$11,825.00 for an aggregate amount not-to-exceed \$5,882,634.08 for FY 2011 and subject to funding availability, an aggregate amount not-to-exceed \$6,177,683.08 the FY2012 option benefit year.

